



# PUBLIC NOTICE

**Federal Communications Commission**  
**445 12<sup>th</sup> Street, S.W.**  
**Washington, D.C. 20554**

News Media Information 202 / 418-0500  
Fax-On-Demand 202 / 418-2830  
TTY 202 / 418-2555  
Internet: <http://www.fcc.gov>  
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**DA 04-1141**  
**Released: April 27, 2004**

## **DOMESTIC SECTION 214 APPLICATION FILED FOR TRANSFER OF CONTROL OF VALOR TELECOMMUNICATIONS, LLC**

### **STREAMLINED PLEADING CYCLE ESTABLISHED**

**WC Docket No. 04-156**

**Comments Due: May 11, 2004**

**Reply Comments Due: May 18, 2004**

On April 12, 2004, Valor Telecommunications, LLC (Valor Parent) and the shareholders of Valor Communications Group, Inc. (VCG, with its subsidiaries, Valor) (together, with Valor Parent, Applicants), filed an application, pursuant to sections 63.03 and 63.04 of the Commission's rules,<sup>1</sup> requesting approval to transfer control of certain subsidiaries of Valor Parent that provide domestic telecommunications services under section 214 of the Act.<sup>2</sup>

Applicants assert that this transaction is entitled to presumptive streamlined treatment pursuant to section 63.03(b)(2)(iii) of the Commission's rules because Valor's collective market share in the interstate, interexchange market will be less than 10 percent; Valor will provide competitive telephone exchange services or exchange access services (if at all) exclusively in geographic areas served by a dominant LEC that is not a party to the transaction; and Valor is an incumbent LEC that has fewer than two percent of the nation's subscriber lines in the aggregate nationwide.<sup>3</sup>

Valor Parent is a privately held Delaware limited liability company. Valor Parent

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<sup>1</sup> 47 C.F.R. §§ 63.03, 63.04; *see* 47 U.S.C. § 214.

<sup>2</sup> Applicants are also filing an application for consent to transfer control of authorization for international and wireless services. Any action on this domestic 214 application is without prejudice to Commission action on other related pending applications.

<sup>3</sup> 47 C.F.R. § 63.03(b)(2)(iii).

currently is the holding company for various subsidiaries that primarily provide local exchange and other communications services to rural communities in four southwestern states. The companies' founders, management, and various institutional equity investors privately hold shares in Valor Parent and its subsidiaries. The current ownership of Valor Parent includes: entities controlled by three institutional equity investors (Welsh, Carson, Anderson & Stowe (WCAS), Vestar Capital Partners (Vestar) and Citicorp Venture Capital); a group of individual investors who were founders of the company; and a group of senior executives. The investment funds managed by Vestar that collectively hold an 11 percent equity interest in Valor Parent are ultimately controlled by Daniel S. O'Connell, the founder and Chief Executive Officer of Vestar.

Valor Parent is the direct parent of two subsidiary holding companies: Valor Telecommunications Southwest, LLC (VTSW) and Valor Telecommunications Southwest II, LLC (VTSW II). Valor Parent owns roughly 87 percent of VTSW and about 90 percent of VTSW II. VTSW is a privately held limited liability Delaware corporation. Through its subsidiaries, VTSW provides telecommunications services in four states. VTSW is the ultimate parent of Valor Telecommunications of Texas, L.P. (Valor Texas), an incumbent local exchange carrier (LEC) that owns and operates 525,000 local access lines and provides communications services primarily to rural communities in New Mexico, Oklahoma, Texas, and Arkansas. VTSW is also the ultimate parent of other subsidiaries, including Valor Telecom LD, LP, which provides interexchange and resold international services, and Southwest Enhanced Network Services, LP, an information services provider. VTSW II is the parent of Valor Telecommunications Enterprises II, LLC (VTE II), a privately held limited liability Delaware company. VTE II is the parent company of Kerrville Communications Corp. (KCC), a telecommunications provider organized under the laws of Texas. KCC is primarily a rural LEC that provides a variety of communications services to its customers through four wholly-owned subsidiaries: Kerrville Telephone, LP; KCC Telcom Inc., d/b/a K2C Telcom; Advanced Tel-Com Systems, LP; and Kerrville Cellular, Inc.

Valor Communications Group, Inc. is a holding company incorporated in Delaware for purposes of the initial public offering. VCG will acquire all of the equity interest in Valor Parent. Following consummation of the proposed transaction, VCG will have no direct operations and its principal assets will be the direct and indirect equity interest in its subsidiaries.

Immediately prior to and in connection with the consummation of the proposed initial public offering for VCG, the Applicants will reorganize their corporate structure. Specifically, VCG will acquire all of the issued and outstanding equity interests of Valor Parent, VTSW, and VTSW II from each of these companies' existing equity investors in exchange for VCG securities and proceeds from the public offering. As a result of this reorganization, each of Valor Parent, VTSW and VTSW II will be either a direct or indirect wholly owned subsidiary of VCG. Because the existing equity investors' relative ownership interests in VCG will be the same as their interests in Valor Parent and its subsidiaries, the Applicants assert that the reorganization will constitute a *pro forma* transfer of control under the Commission's rules.

Immediately subsequent to the reorganization, VCG will offer Income Deposit Securities (IDS) in the amount of \$ 875 million to the public. IDSs are securities comprised of common stock and subordinated notes, with each IDS representing one share of common stock and a subordinated note with a certain principal amount at a certain interest rate. Holders of IDSs are at all times the beneficial owners of the common stock and notes represented by such IDSs and will have the same voting rights as direct holders of common stock. The IDSs will be traded on a yet-to-be-determined public stock exchange in the United States, and on the Toronto Stock Exchange in Canada. Merrill Lynch, CIBC World Markets and Lehman Brothers will be the lead underwriters for the public offering.

The Applicants anticipate that the offering will sufficiently dilute the current shareholders' ownership interests such that no single existing shareholder will hold a controlling interest in VCG subsequent to the offering, although WCAS and Vestar will continue to hold a ten percent or greater (but significantly less than fifty percent) interest in VCG subsequent to the IPO. Furthermore, the Applicants anticipate that the VCG securities will be widely held subsequent to the IPO, and as a result no new ten percent or greater shareholders will be created. Thus, Applicants assert that no single shareholder will hold a controlling interest in VCG subsequent to the IPO.

The Applicants submit that the proposed transaction will enhance the financial stability of Valor and its carrier subsidiaries by allowing the companies to pay off existing debt, increase liquidity, and expand the companies' access to different types of capital and capital markets. The Applicants maintain that the transaction will remain transparent to Valor customers, who will continue to be served by the same operating companies and experienced personnel serving them today. Furthermore, Applicants claim that there will be no interstate rate changes as a direct result of the reorganization. Because the transaction does not involve a transfer of access lines or any material change in the services provided by Valor, Applicants argue that it raises no competitive concerns that the Commission has identified in previous transactions involving incumbent LECs.

## **GENERAL INFORMATION**

The transfer of control identified herein has been found, upon initial review, to be acceptable for filing as a streamlined application. The Commission reserves the right to return any transfer of control application if, upon further examination, it is determined to be defective and not in conformance with the Commission's rules and policies. Interested parties may file **comments on or before May 11, 2004 and reply comments on or before May 18, 2004.**<sup>4</sup> Unless otherwise notified by the Commission, Applicants are permitted to transfer control on the 31<sup>st</sup> day after the date of this notice.<sup>5</sup> Comments may be filed using the Commission's Electronic

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<sup>4</sup> See 47 C.F.R. § 63.03(a).

<sup>5</sup> Such authorization is conditioned upon receipt of any other necessary approvals from the Commission in connection with the proposed transaction.

Comment Filing System (ECFS) or by filing paper copies. *See Electronic Filing of Documents in Rulemaking Proceedings*, 63 Fed. Reg. 24121 (1998).

Comments filed through the ECFS can be sent as an electronic file via the Internet to <<http://www.fcc.gov/e-file/ecfs.html>>. Generally, only one copy of an electronic submission must be filed. If multiple docket or rulemaking numbers appear in the caption of this proceeding, however, commenters must transmit one electronic copy of the comments to each docket or rulemaking number referenced in the caption. In completing the transmittal screen, commenters should include their full name, U.S. Postal Service mailing address, and the applicable docket or rulemaking number. Parties may also submit an electronic comment by Internet e-mail. To get filing instructions for e-mail comments, commenters should send e-mail to [ecfs@fcc.gov](mailto:ecfs@fcc.gov), and should include the following words in the subject line "get form <your e-mail address>." A sample form and directions will be sent in reply.

Parties who choose to file by paper must file an original and four copies of each filing. If more than one docket or rulemaking number appears in the caption of this proceeding, commenters must submit two additional copies for each additional docket or rulemaking number. Filings can be sent by hand or messenger delivery, by commercial overnight courier, or by first-class or overnight U.S. Postal Service mail (although we continue to experience delays in receiving U.S. Postal Service mail). The Commission's contractor, Natek, Inc., will receive hand-delivered or messenger-delivered paper filings for the Commission's Secretary at 236 Massachusetts Avenue, N.E., Suite 110, Washington, D.C. 20002. The filing hours at this location are 8:00 a.m. to 7:00 p.m. All hand deliveries must be held together with rubber bands or fasteners. Any envelopes must be disposed of before entering the building. Commercial overnight mail (other than U.S. Postal Service Express Mail and Priority Mail) must be sent to 9300 East Hampton Drive, Capitol Heights, MD 20743. U.S. Postal Service first-class mail, Express Mail, and Priority Mail should be addressed to 445 12th Street, SW, Washington, D.C. 20554. All filings must be addressed to the Commission's Secretary, Office of the Secretary, Federal Communications Commission.

**In addition, one copy of each pleading must be sent to each of the following:**

- (1) the Commission's duplicating contractor, Qualex International, 445 12<sup>th</sup> Street, S.W., Room CY-B402, Washington, D.C. 20554; e-mail: [qualexint@aol.com](mailto:qualexint@aol.com); facsimile: (202) 863-2898; phone: (202) 863-2893;
- (2) Tracey Wilson, Competition Policy Division, Wireline Competition Bureau, 445 12<sup>th</sup> Street, S.W., Room 5-C437, Washington, D.C. 20554; e-mail: [tracey.wilson-parker@fcc.gov](mailto:tracey.wilson-parker@fcc.gov);
- (3) Dennis Johnson, Competition Policy Division, Wireline Competition Bureau, 445 12<sup>th</sup> Street, S.W., Room 6-A461, Washington, D.C. 20554; e-mail: [dcjohnso@fcc.gov](mailto:dcjohnso@fcc.gov);
- (4) Julie Veach, Competition Policy Division, Wireline Competition Bureau, 445 12<sup>th</sup> Street, S.W., Room 5-C124, Washington, D.C. 20554; e-mail: [julie.veach@fcc.gov](mailto:julie.veach@fcc.gov);

- (5) Susan O'Connell, Policy Division, International Bureau, 445 12<sup>th</sup> Street, S.W., Room 7-B544, Washington, D.C. 20554; email: [susan.o'connell@fcc.gov](mailto:susan.o'connell@fcc.gov); and
- (6) Christopher Killion, Office of General Counsel, 445 12<sup>th</sup> Street, S.W., Room 8-C740, Washington, D.C. 20554; e-mail: [chris.killion@fcc.gov](mailto:chris.killion@fcc.gov).

Filings and comments are also available for public inspection and copying during regular business hours at the FCC Reference Information Center, Portals II, 445 12th Street, SW, Room CY-A257, Washington, DC, 20554. They may also be purchased from the Commission's duplicating contractor, Qualex International, Portals II, 445 12th Street, SW, Room CY-B402, Washington, DC, 20554, telephone 202-863-2893, facsimile 202-863-2898, or via e-mail [qualexint@aol.com](mailto:qualexint@aol.com).

For further information, please contact Tracey Wilson, at (202) 418-1394, or Dennis Johnson at (202) 418-0809.

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